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A REPORT  
TOGETHER WITH RECOMMENDATIONS  
ON GOVERNMENT PURCHASING POLICY  
AND THE MEASUREMENT  
OF CANADIAN CONTENT

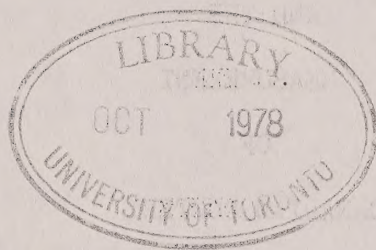


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AND THE  
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OF  
CANADIAN CONTENT

INDUSTRIAL DEVELOPMENT COMMITTEE  
ONTARIO ECONOMIC COUNCIL

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## INTRODUCTION

The Industrial Development Committee has examined and fully supports the Federal and Provincial programs which seek to strengthen the balance of payments and promote economic development by:

- (a) prompting and assisting firms located in Canada to expand their exports; and by
- (b) encouraging Canadian consumers and firms located in Canada to give more consideration to commodities and services embodying a high Canadian content when they are competitive in price and quality with imports.

The Ontario Government's "M.O. Shows" have been especially praiseworthy in that they have helped to overcome fixed buying habits, entrepreneurial inertia, and the high advertising costs which some firms located in Canada cannot afford. As a result, many competitive firms located in Canada have received orders which would otherwise have been directed to foreign suppliers.

Despite the strong support given by the different levels of government to the "Trade Crusade", it has been brought to the attention of the Committee repeatedly that government departments, commissions, and agencies are not giving that policy sufficient support with regard to their own purchases.

With aggregate government expenditures on goods and services approaching an annual total of \$4 billion, the Committee wishes to emphasize how imperative it is for government itself to



not overlook but give every consideration to competitive supplies embodying a high Canadian content.

In the following pages, the Committee examines the stated purchasing policy of the Ontario Government and also the purchasing practices of its departments, commissions and agencies as revealed by their answers to a questionnaire circulated by the Committee. This has been done primarily to evaluate the effectiveness of the "Buy-Canadian" Policy within government circles and to ascertain what measures would strengthen that policy's implementation.

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## (1) PURCHASING POLICY

The purchasing policy of the Ontario Government was stated by the Prime Minister, Hon. J.P. Robarts, Q.C., in his letter of November 8th, 1962, which was sent to all Ministers (except those without portfolio) and to Chairmen of Commissions and Boards. In this letter Mr. Robarts said: -

"The policy of the government is to encourage our people to cut down, but not cut out, imports -- while at the same time doing what we can to stimulate exports out of Ontario as well as the manufacture in Ontario of goods formerly imported into this country" meaning Canada.

"We are gaining more and more support for this program around the country and it behooves us to make sure that our own house is in order.

We are asking companies in Ontario to take an inventory of their goods and to look at their purchasing habits with a view to obtaining Canadian manufactured goods which are of equal quality and price to those goods now being imported into Canada.

I, therefore, am writing to you at this time to ask you to institute a similar program in relation to your commission. Would you give instructions to your purchasing section, and those responsible for the implementation of policy, to review the buying habits of your commission to see that they are consistent with the program which this government is sponsoring and which we entitle - our 'Trade Crusade'".



Prior to the circulation of this letter the Federal Government had laid down a similar, but discriminatory, purchasing policy in the Technical and Vocational Training Agreement. This policy was communicated to all education officials by the Ontario Ministers of Education, and Economics and Development in a joint memorandum dated April 19th, 1962.

Contained within this memorandum were the following extracts:

- (1) "The Government of Canada requires that equipment purchased under the Technical and Vocational Training Agreement be of Canadian manufacture, if available, if comparable in quality to imported equipment, if adequate for the purpose to be served, and if the price does not exceed that of imported equipment by more than 10 per cent. The Ontario Departments of Education, and Economics and Development wholeheartedly endorse this requirement".
- (2) "If imported equipment is bought rather than available Canadian equipment, the reason must be stated when the invoice is presented to the Department of Education".

In November 1962, the Federal Minister of Labour complained to the Provincial Minister of Education that, with regard to the Technical and Vocational Agreement, "Although our officials have



reported that serious efforts are being made to purchase Canadian equipment, reports have continued to reach the government indicating that a greater proportion of imported material is being purchased for the schools than we had hoped would be necessary. To ensure that Canadian-made equipment is being used to the fullest possible extent, the Cabinet has directed that it be a condition of approval of projects that Canadian-made equipment be purchased when suitable for the purposes of training".

As a consequence of this complaint, the Ontario government sent in December 1962, a follow-up memorandum to all education officials: -

"It has been brought to our attention that in many instances Boards are paying little or no attention to the request outlined in our previous memorandum, and efforts must be made by Boards to permit Canadian manufacturers to quote on the goods which are required".

The Committee believes that there are several reasons why little or no attention was paid to the request, habit and inertia being important no doubt. The main factor, however, appears to be that there is no clear understanding of what is meant by "Canadian manufactures" and "Canadian content". Neither the Federal nor the Provincial Government defined what was to be meant by Canadian manufacture, contenting themselves to distinguish solely between imports and non-imports and thereby ignoring the degree of Canadian content in commodities.



One Board of Education illustrates this point very clearly in a letter to the Minister of Economics and Development: "to comply with the joint requests of the Department of Education and the Department of Economics and Development, we included in all tenders this term: Bidders are requested to state the percentage of Canadian content of equipment and supplies quoted". However, "The answers to this request in our tenders have been very confusing to the members of the Equipment Committee and our Board. There appears to be no common agreement as to the interpretation of the terms 'Canadian Content' or 'Canadian Manufacture'. It would greatly assist us if you would define these terms more clearly, indicating as far as possible whether you include Canadian materials, Canadian labour, advertising, sales and service, Canadian assembly and any other factors which might make the interpretation more easily followed".

The confusion which this Board acknowledges is not experienced by it alone. For instance, although the Quebec Government allows a margin of preference on commodities 'Made in Quebec', a special committee set up by the Quebec Cabinet to investigate the problems associated with a 'Buy Quebec' policy reported among other things "that it was urgently required to establish by legislation a workable definition of what was a 'Quebec Product'".



Ontario Hydro, too, acknowledges in its letter to the Industrial Development Committee, dated October 7th, 1963, the confusion which exists with regard to the measurement of Canadian content:

"In the tender, you will note that percentage of content by national origin is requested. In the quotations, the point of manufacture is requested and our buyers are responsible for relative assessment of degree of Canadian content. In this connection, you will recognize that in the general run of merchandise it would be difficult to place reliance on declarations by salesmen and we find that an alert and inquisitive attitude on the part of our buyers is the most effective way to expect pressure for improved Canadian content".

The 'Buy Canadian' policy is strongly supported by the Canadian Manufacturers' Association; but it, too, "has not offered any proposal for an official definition of 'Made in Canada' although" it has "many times examined the problem without reaching any conclusions as to a definition which would be widely acceptable for all the purposes to which such a definition would be appropriate and over the whole range of manufactured products".<sup>1</sup>

<sup>1</sup>Letter from Manager, Commercial Intelligence Department - May 8th, 1963.



## (2) PURCHASING PROCEDURES

In order to ascertain the extent to which a common purchasing procedure by government departments and agencies was being followed in Ontario, the Industrial Development Committee sent a questionnaire to a total of 218 departments, commissions and other agencies. So far 111 answers have been received and are summarized in the table at the end of this section.

It appears from the answers that no common procedure is followed by the different departments, commissions and agencies. There may be a willingness to consider, even seek out, possible Canadian suppliers when the product is otherwise an obvious import, but little attention is given to the Canadian content of commodities said to be Made in Canada. Because of this, the "Consider or Buy Canadian Policy" of the organizations which answered the questionnaire cannot be **said** to be effective.

The Committee has asked itself: In **what way** can that policy be **made** more effective? As the lack of common **procedure** **appears** to result from the failure to agree on quantifiable definitions of "**Made in Canada**" and "Canadian Content" the Committee believed that it **was** necessary **first** of all to devise such definitions and secondly, to install a system in which government purchasing officers and firms followed the definitions and a common procedure.



As most commodities embody in various degrees a combination of foreign and Canadian content, it was found that to define as Made in Canada those commodities with a 100 per cent Canadian content would be of limited use, and that this being the case, it would be necessary to include a Canadian content provision in any definition of "Made in Canada", or better still, to jettison the idea of such a definition and concentrate on the degree of Canadian content.

Keeping in mind that government purchasing officers would require precise instructions as to how Canadian content would be calculated so that they could audit and compare the recorded content of different suppliers and contractors, and that, for its part, industry would require the calculation to be simple, cheap and equitable, the committee developed a system by which Canadian content could be measured.

This system was set out in the Committee's initial report but came under criticism on two points:

- (a) The complications which would arise from apportioning the cost of a capital asset over its lifetime or to different contracts; and
- (b) The fact that the averaging of Canadian content might work to the benefit or detriment of a multi-product firm and thereby distort competitive arrangements.



Because of these two considerations it has not been found possible to recommend a simple system of measurement which would have general applicability. However, as it was believed that the initial system had helped to clarify a complex situation and provided a useful basis for further study, it has been attached as an appendix to this report.

Failing to devise an acceptable system of measurement, the Committee was compelled to consider what could be done on a piecemeal basis to standardize government purchasing practices and to promote the "Buy-Canadian" Policy. The Committee's conclusions and the recommendations based thereon are set down in the following section for the consideration of the Economic Council and the Ontario Government.



PURCHASING PROCEDURES OF THE  
DEPARTMENTS AND COMMISSIONS  
OF THE ONTARIO GOVERNMENT  
AND OTHER PUBLIC AGENCIES

<u>Questions</u>	<u>Answers</u>		
	<u>Yes</u>	<u>No</u>	<u>Not Applicable</u>
(1) If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?	81	23	7
(2) Is any price differentiation allowed on goods of Canadian manufacture as against import items?	40	60	9
(3) Do quotation requests call for information as to:			
(i) Country of origin?	31	74	4
(ii) Canadian content - material and labour?	23	77	4
(iii) Whether purchases are payable in Canadian or foreign currency?	49	52	5
(4) Is Supplier required to indicate if:			
(i) Manufacturer?	27	79	4
(ii) Manufacturer's Agent?	21	76	4
(iii) Distributor?	22	75	4

*Which number in the box?*

A breakdown of these questions and answers is included as an appendix to this report.

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### (3) RECOMMENDATIONS

The Industrial Development Committee has come to the conclusion, after examining government purchasing practices, that the Ontario Government has not promoted the "Buy Canadian" Policy, with regard to the purchases of its departments, commissions, the municipalities, hospitals, etc., with anything like the same vigour as it has promoted its "Trade Crusade" in the private sector. The Committee feels that immediate steps should be taken to remedy this situation.

It is recommended that the Ontario Government instruct its departments, commissions, and the organizations which receive its financial support, to stipulate and purchase Canadian supplies, if the price and quality are satisfactory and the choice is an obvious one between imports and non-imports. They should also be instructed to give preferential consideration to supplies recording and believed to contain a relatively high Canadian content.

To facilitate the identification and purchase of Canadian supplies, the Committee believes that it should be mandatory for purchasing officers to obtain the following information from prospective suppliers:

- (a) Whether that being supplied or quoted on is imported, and, if it is, the country of origin;
- (b) if imported materials and components form part of the total price, an estimate of their value as a percentage of total price;<sup>(1)</sup>

<sup>(1)</sup> This statement is already requested from suppliers by the Department of Highways.



- (c) the place of manufacture, if that which is being supplied is manufactured.

Suppliers should be informed that their bids or supplies will not be considered if the requested information is not provided, and that the information provided may be subject to review. Purchasing officers will also be informed that purchases will not be made if this information is not provided and considered by them.

The Committee is fully aware that the measurement of foreign or Canadian content, as outlined in (c), will be difficult to obtain and more often than not the estimate will be exaggerated by the supplier. However, until such times as a practicable system of measurement is devised and installed, the Committee believes that this will be better than the existing patchwork arrangements and will prompt purchasing officers to give careful consideration to Canadian content, and, directly and indirectly, promote the "Buy Canadian" psychology and policy.

It is also recommended that the Ontario Government establishes a central purchasing-control office to carry out the following duties:

- (a) Investigate major government purchases to determine whether they are or could be supplied competitively by firms located in Canada; and to determine also whether it is economic and possible to divert any government demand to products embodying a higher Canadian content than those already being purchased;

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- (b) examine government purchases to determine whether any could be standardized to provide economic production runs for firms located in Canada;
- (c) inspect the content statements of particular suppliers and check that the practices followed by the different departments, etc., are fully compatible with the policy and procedures laid down by the Ontario Government; and
- (d) study further the problems associated with the measurement of Canadian content, particularly to strengthen and implement the system of measurement laid down in the Appendix.

In this way the Industrial Development Committee believes that the Ontario Government can strengthen the implementation of its stated "Buy Canadian" Policy and thereby promote economic development and employment in Ontario and Canada.

November 1963.  
Industrial Development Committee

1. The first part of the report is a summary of the work done during the year.

2. The second part is a detailed account of the experiments carried out.

3. The third part is a discussion of the results obtained.

4. The fourth part is a conclusion drawn from the work.

5. The fifth part is a list of references.

6. The sixth part is a list of symbols and abbreviations.

7. The seventh part is a list of figures.

8. The eighth part is a list of tables.

9. The ninth part is a list of appendices.

10. The tenth part is a list of footnotes.

11. The eleventh part is a list of references.

12. The twelfth part is a list of symbols and abbreviations.

13. The thirteenth part is a list of figures.

14. The fourteenth part is a list of tables.

## A P P E N D I C E S



SURVEY OF DEPARTMENTS AND COMMISSIONS

A total of 23 Departments and Commissions were circularized with the questionnaire and the questions and answers were as follows: -

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 18 Yes                      3 No                      2 Not applicable

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 10 Yes                      10 No                      3 Not Applicable

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 7 Yes                      15 No                      1 Not Applicable

(ii) Canadian content - material and labour?

Answers: 7 Yes                      15 No                      1 Not Applicable

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 9 Yes                      13 No                      1 Not Applicable

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 2 Yes                      20 No                      1 Not Applicable

(ii) Manufacturer's Agent?

Answers: 2 Yes                      20 No                      1 Not Applicable

(iii) Distributor?

Answers: 2 Yes                      20 No                      1 Not Applicable



## II.

### SURVEY OF PUBLIC UTILITIES

A total of 31 Public Utilities were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 6 Yes - No 1 N/A

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 3 Yes 2 No 2 N/A

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 1 Yes 5 No 1 N/A

(ii) Canadian content - material and labour?

Answers: 2 Yes 4 No 1 N/A

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 1 Yes 5 No 1 N/A

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 3 Yes 3 No 1 N/A

(ii) Manufacturer's Agent?

Answers: 3 Yes 3 No 1 N/A

(iii) Distributor?

Answers: 3 Yes 3 No 1 N/A



### III.

#### SURVEY OF CITY CLERKS

A total of 33 City Clerks were circularized with the questionnaire, and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 15 Yes            3 No            2 N/A

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 3 Yes            16 No            2 N/A

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 2 Yes            17 No

(ii) Canadian content - material and labour?

Answers: 2 Yes            17 No

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 9 Yes            10 No

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 4 Yes            17 No

(ii) Manufacturer's Agent?

Answers: 2 Yes            14 No

(iii) Distributor?

Answers: 3 Yes            13 No



#### IV.

##### SURVEY OF HOSPITALS

A total of 35 Hospitals were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 14 Yes 6 No

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 4 Yes 15 No

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 3 Yes 16 No

(ii) Canadian content - material and labour?

Answers: - Yes 17 No

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 11 Yes 8 No

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 6 Yes 13 No

(ii) Manufacturer's Agent?

Answers: 2 Yes 14 No

(iii) Distributor?

Answers: 2 Yes 14 No



SURVEY OF PROTESTANT SCHOOL BOARDS

A total of 37 Protestant School Boards were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 15 Yes 6 No

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 14 Yes 7 No

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 12 Yes 10 No

(ii) Canadian content - material and labour?

Answers: 8 Yes 14 No

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 9 Yes 12 No 1 N/A

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 4 Yes 16 No

(ii) Manufacturer's Agent?

Answers: 4 Yes 16 No

(iii) Distributor?

Answers: 4 Yes 16 No



SURVEY OF ROMAN CATHOLIC SCHOOL BOARDS

A total of 27 Roman Catholic School Boards were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 4 Yes 1 No

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 2 Yes 2 No

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 1 Yes 4 No

(ii) Canadian content - material and labour?

Answers: - Yes 3 No

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 1 Yes 2 No

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 4 Yes 1 No

(ii) Manufacturer's Agent?

Answers: 3 Yes 1 No

(iii) Distributor?

Answers: 3 Yes 1 No



SURVEY OF UNIVERSITIES

A total of 12 Universities were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?  
 Answers:     5 Yes            2 No            1 N/A
  
2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?  
 Answers:     1 Yes            6 No            1 N/A
  
3. Do quotation requests call for information as to:
  - (i) Country of origin?  
 Answers:     2 Yes            5 No            1 N/A
  - (ii) Canadian content - material and labour?  
 Answers:     1 Yes            5 No            1 N/A
  - (iii) Whether purchases are payable in Canadian or foreign currency?  
 Answers:     5 Yes            1 No            1 N/A
  
4. Is Supplier required to indicate if:
  - (i) Manufacturer?  
 Answers:     3 Yes            5 No            1 N/A
  - (ii) Manufacturer's Agent?  
 Answers:     4 Yes            4 No            1 N/A
  - (iii) Distributor?  
 Answers:     4 Yes            4 No            1 N/A



VIII.

SURVEY OF TEACHERS COLLEGES

A total of 11 Teachers Colleges were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 1 Yes - No 1 N/A

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: - Yes 1 No 1 N/A

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 1 Yes - No 1 N/A

(ii) Canadian content - material and labour?

Answers: 1 Yes - No 1 N/A

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 1 Yes - No 1 N/A

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: - Yes 1 No 1 N/A

(ii) Manufacturer's Agent?

Answers: - Yes 1 No 1 N/A

(iii) Distributor?

Answers: - Yes 1 No 1 N/A



SURVEY OF TECHNICAL SCHOOLS

A total of 9 Technical Schools were circularized with the questionnaire and the questions and answers were as follows:

1. If requirements are not made in Canada, are Canadian manufacturers given an opportunity to compete before import items are considered for purchase?

Answers: 3 Yes 2 No

2. Is any price differentiation allowed on goods of Canadian manufacture as against import items?

Answers: 3 Yes 1 No

3. Do quotation requests call for information as to:

(i) Country of origin?

Answers: 2 Yes 2 No

(ii) Canadian content - material and labour?

Answers: 2 Yes 2 No

(iii) Whether purchases are payable in Canadian or foreign currency?

Answers: 3 Yes 1 No

4. Is Supplier required to indicate if:

(i) Manufacturer?

Answers: 1 Yes 3 No

(ii) Manufacturer's Agent?

Answers: 1 Yes 3 No

(iii) Distributor?

Answers: 1 Yes 3 No



MEASURING CANADIAN CONTENT

The system for the measurement of Canadian content which was considered by the Industrial Development Committee is set out below.

It requires:

- (1) Foreign exporters and domestic importers selling in Ontario to state on their invoices the country of origin of the commodities, and the cost (C.I.F. less tariff charges)<sup>1</sup> of the commodities on importation;
- (2) Distributors selling in Ontario to state on all their invoices and answers to quotation requests whether a commodity has been imported or not, and, if it has, the cost on entry as stated by the importer. If a commodity is being distributed for a Canadian producer, the Canadian content as calculated under (3) will be stated;
- (3) Extracting, processing and manufacturing firms selling in Ontario to calculate the cost (C.I.F. less tariff charges) of commodities imported by them and add it to the import value of imports purchased from distributors and importers. To the list of imports thus obtained will be added the cost of services, such as research, provided by a firm, related or otherwise, from outside Canada. The import content of commodities purchased from other domestic extractors, processors and manufacturers will equal the supplier's recorded

<sup>1</sup>.Or F.O.B. if this is easier to obtain and is more acceptable to suppliers generally.



## XI.

import percentage times the value of the purchase. The supplier's import percentage will be calculated as in this section. In this way, the total import content of a firm could be obtained.<sup>1.</sup> To simplify matters it is believed that this should be calculated for the previous year, say twice a year, and recorded as a percentage of total sales -- income<sup>2.</sup> on all invoices and answers to quotation requests. It will be noted that the import percentage thus calculated is the average percentage for the firm and not the percentage for the commodity being supplied.

- (4) Services provided by firms located in Canada to be considered as completely Canadian, though insurance companies might be made the exception;
- (5) Construction and job contractors to submit with tenders an estimate of their expected import content, and on the completion of the project to calculate actual import content in accordance with the system of measurement outlined here and to account for any variance. Contractors to calculate import content for the project or job and, not as manufacturers, to average it out for the whole firm over a given period. With regard to their purchases of materials, processed and manufactured goods, contractors may apply the import content ratio of the supplying firm to the value of

<sup>1.</sup>The import content of a capital asset will be apportioned to imports at the same rate as it is depreciated.

<sup>2.</sup>It could be argued that the percentage should be of total cost and not of total sales income.



## XII.

the commodities purchased to determine import content for their own calculation. If a government department or agency allows a price advantage to contractors with a relatively high Canadian content, it would be paid on the basis of content achieved;

With regard to construction or job contracts, manufacturers to use in their own calculations of content first the actual import content of a contract and if this is not available, the contractor's estimate of content. Once the actual figure becomes available it will be substituted for the estimated figure in the manufacturer's calculations at the next reporting date;

- (6) Government purchasing officers to obtain and compare the import content (as calculated above) from competitive suppliers and contractors, and, price, quality and delivery being comparable, to direct their purchases and contracts to those firms recording and, over time, achieving the lowest import content;

- (7) The Ontario Government to establish a Central Office to provide information on the system, especially during its introduction, and to make random audits of the Canadian or import content recorded by different firms.

This new organization could also examine the purchases of government departments, commissions, agencies, etc., to increase the use of standard commodities which could be produced economically by suppliers recording a high Canadian content.



### XIII.

This system would be simple and economical to install and administer. It allows comparable calculations of Canadian content to be made and would stimulate the promotion of the "Buy Canadian Policy".

If the decision were made to introduce the proposed system in Ontario, it would be necessary to communicate clear instructions to all firms. It would be necessary to state the date by which documentary changes would be made and the date from which the whole system would become effective. For example, say all firms made the documentary changes by January 1st, 1964, then at least six months would be necessary to provide a period over which manufacturing firms could calculate their Canadian content. Allow an additional month to complete the six-monthly calculation and from then, say August 1st, 1964, the system would be considered finally installed. Some firms would not be able to calculate their Canadian content completely at first because of the interdependence of calculations and would have to estimate part of the content until such time more accurate figures became available.

From the documents received purchasing officers should be able to ascertain whether the supplier is a foreign exporter, an importer, a distributor, a manufacturer or processor, or a building contractor, and, if the commodity being supplied is not a direct import, the Canadian content measured in accordance with the procedures laid down.



#### XIV.

If the different suppliers noted previously calculate their Canadian content in the manner described and insert the information suggested on invoices and quotations, it would not be necessary for the government purchasing officers to introduce new documents.

The system which is submitted for consideration is likely to be criticized for:

- (1) Making it necessary for all firms, other than those in the service industries located in Canada, to calculate Canadian content;
- (2) Allowing manufacturing firms to calculate the Canadian content of the firm and not its commodities; and that this will sometimes lead to preference being given to commodities with a low Canadian content; and, if margins of preference are given, also induce firms with a high Canadian content to extend their production lines to include some with a low Canadian content;
- (3) Considering the use of government officers to audit private content declarations.

The answers offered in defence are:

- (1) If the "Buy Canadian" policy were accepted, it would be necessary for government at least to be able to ascertain the Canadian content of the commodities and structures it purchased. In addition, it would be desirable to stimulate private purchasers to consider Canadian content; and, if this



were done, they too would wish to know the Canadian content of that which they purchased. Also, the establishment of the system would not create much paper work, and would simplify the arrangements and procedures which presently exist;

(2) This factor simplifies the whole system and makes it workable.

True, it may sometimes lead to preference being given to commodities with a low Canadian content, but preference would still be given to firms recording a high Canadian content. Also, especially if an incentive is given to increase Canadian content, in their attempt to raise their overall Canadian content, firms would have to raise it in their commodities. If some firms, seeking to gain from a content advantage they have on existing lines, introduced additional commodities containing a low Canadian content, they would be reducing their advantage over competitors (if they exist) who also supply their existing lines. It might be desirable, however, to reduce the possibility of extension by defining a manufacturing or processing firm as an establishment located at one place. This would disallow a corporation which controls several firms from transferring content from one firm to another. For instance, a corporation owning and extracting a Canadian mineral would not be allowed to add its Canadian content to the Canadian content recorded by its manufacturing plant. Any minerals transferred from the extracting firm to the manufacturer,



XVI.

as when minerals are purchased from non-controlled suppliers, would have their Canadian content recorded by the supplier and this would be added to that recorded by the manufacturer;

- (3) It might be necessary for government auditors to check particular content calculations, especially during the early period of the system's introduction, but once the procedures were being followed it would be possible for the accountants who certify a firm's balance sheet to also audit and certify a firm's content calculation. In addition, once the system was working fairly well, the Ontario Government could keep records of the Canadian content figures of different firms and supply information to whomsoever requested it for checking purposes.



## XVII.

### PRICE DISCRIMINATION

The introduction of the proposed system in Ontario would make it possible for the Federal Government to define more precisely what it meant by Canadian manufacture under the Technical and Vocational Training Agreement. As a 10% margin of preference is allowed under that agreement more precision is certainly necessary.

If the Ontario Government also decided to extend a margin of preference to suppliers and contractors recording a high Canadian content the system would facilitate this.

The simple 10% margin, as under the Technical and Vocational Training Agreement, is not supported however; for it is likely to extend a considerable benefit to firms which have a Canadian content only slightly higher than that of a competitor. It would also encourage an extension of product lines as outlined in the preceding section.

It is recommended, therefore, that if the Provincial Government, its Commissions and agencies extend margins of preference it would be preferable that they be proportional to the difference between the Canadian content of "competing" suppliers.

#### Canadian Content and Margin of Preference

<u>Percentage-point difference between competitors' Canadian content</u>	<u>Percentage margin of preference allowed</u>
100 ↓ 0	Say 10 ↓ 0



## XVIII.

This preference, however, would not induce non-competing firms to raise their Canadian content and an incentive related to the percentage-point increase in Canadian content over time should be considered if margins of preference are introduced. Even if margins are not introduced, some consideration might be given to the introduction of incentives related to the increase in Canadian content. Monetary incentives aside, the A-for-Achievement Awards could certainly be given for increases in Canadian content.









